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SIPDIS

STATE FOR SCA/INSB, EEB/APRATTIPATI  
STATE PASS USTR FOR VICKY KADER  
TREASURY FOR SUSAN CHUN  
COMMERCE FOR ITA EROL YESIN

E.O 12958: N/A

TAGS: [ECON](#) [SOC](#) [PGOV](#) [CE](#)

SUBJECT: Business Leaders See Progress in Eastern Reconstruction;  
Challenges Remain

¶1. Summary: A/S Robert Blake met with a group of business leaders to discuss reconstruction of the conflict regions of the North and East. The Government of Sri Lanka (GSL) defeated the LTTE in 2007 in the East, and there has been great progress in that region, with fewer checkpoints, improved roads, and agricultural and even some industrial development. The GSL just defeated the LTTE in the North in May 2009, and security concerns and resettlement issues have limited an economic rebound in the North so far. The business leaders identified several common challenges to development in these regions, namely education and vocational training for the workforce, water and land for agricultural production, and transportation facilities. A/S Blake discussed ways that the USG and the Diaspora might help, perhaps through private partnerships to promote education. End Summary.

¶2. A/S Blake met with seven companies who are active in Eastern Sri Lanka, a regional Chamber of Commerce, and United States Agency for International Development representatives, to learn about the business climate in the East, the successes and challenges faced by their companies in the East, and their experiences, if any, in the North. The businesses had experience in agriculture, tourism, logistics, apparel, and banking. The GSL has held up the East as a success story, which they hope to recreate in the North.

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Progress in the East; Not Yet in the North  
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¶3. The business leaders agreed that that the North and East have tremendous potential in agriculture, with a good share of Sri Lanka's most fertile land, fisheries (underutilized due to wartime restrictions on fishing boats), tourism with virtually untapped beaches and islands, and industries such as apparel manufacturing. These representatives saw substantial progress in reconstruction in the East. Several companies with plants in the East stated that the number of security checkpoints had declined dramatically, which was very important in allowing them to transport their goods efficiently. The checkpoints were a particular problem for agricultural produce, which can spoil if it takes too long to get to market. These companies also felt that the security situation had improved. The representatives praised the GSL for work improving the national and regional roads, although some roads still need

work. The business chamber representative noted that small and medium sized enterprises in the East were not doing as well as the large Sri Lankan conglomerates.

14. The North has shown much less progress in economic development so far. The North has great potential in tourism, but to date there have been few, if any, tourists; instead, people who previously lived in these areas are returning to see them. Two business chambers are planning trips to the North, one from Colombo to lure local and Diaspora investors, and another from the Southeast to assess business opportunities. In general, the business leaders thought that economic development would take time, and - since the war just ended in May - many people are just being resettled in their homes, infrastructure is being built, and approximately 100,000 Internally Displaced Persons (IDPs) are still in camps.

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Obstacles to Further Economic Development  
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15. The business leaders identified several key challenges before the East (and by extension the North) can reach their full potential.

-- The workers in the East have very low productivity in agricultural work and other fields, which will require a great deal of education, vocational training, and life skills. An agribusiness conglomerate representative said that many former IDPs did not want to work in agriculture. Moreover, they do not have the necessary knowledge, leading to a large shortage of laborers with the right skills. There is a need for technology transfer to improve skills

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and productivity. Other business leaders agreed that although there was a large pool of unemployed workers, they needed training and skills to fill positions ranging from agriculture to apparel to clerical work.

-- Agricultural producers need water, land and more cows. Both agricultural and business companies said that one of their most pressing needs was additional water supplies, gathered through better rainwater collection or conservation techniques. Although some businesses had sufficient land, others, especially agriculture, had trouble getting enough land to grow crops, especially since the government reserved much of the land for rice paddy production. Finally, the North and East have great potential for dairy production, but not enough cows. It will take 7-10 years to build a good herd through natural breeding.

-- There are substantial transportation needs. A garment manufacturer had difficulty getting workers to its factory, so it created its own bus service. The fishing industry is constrained because there are insufficient cold storage facilities, so after traveling over hot roads the fish can spoil before they get to a local market or the port for export.

-- GSL policies are sometimes misguided and they do not promote economic growth. The GSL provides generous incentives to investors, such as 25-year tax-free holidays for investors in the North, and 15-year tax-free holidays in other parts of Sri Lanka. These business contacts emphasized that they need infrastructure more than tax-free holidays, since the tax incentives primarily benefit them if they are making a profit. Moreover, sometimes government policies are contradictory. The GSL had a policy to encourage rice production, but when the price of rice went too high, the GSL imposed price controls which reduced the farmers' incentives to grow rice.

-- Although banks have opened branches in the North and East, they primarily take in deposits and do little lending. The Central Bank has encouraged many banks to open branches in the North and East, and the banks have done so. The banks are taking in large deposits, but there still is little credit, and a bank representative said that his bank of lends out only 20% of their deposits. A/S Blake asked about micro lending. Business representatives responded that micro lending is cost effective due to administrative costs, so they prefer to lend to small, medium, and large enterprises.

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Options to Increase Economic Growth  
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¶6. The business representatives had three ideas that could increase economic growth. The first, and most important, is to tap the skills and resources of the Diaspora. Although there is interest, the Diaspora has not yet returned, although some are sending remittances to relatives. A/S Blake said that he plans to meet Diaspora representatives to seek their engagement through public-private partnerships to provide education and vocational training, and the business leaders were supportive of this concept. Several of the companies work with USAID, and they were pleased with the worker training and agricultural technical assistance that they received. Therefore, the GSL could focus on these areas instead of tax holidays. Another possibility is to develop industrial parks in the East and North, alleviating the problems of land, water, and worker transportation. Finally, the USG could assist through the Overseas Private Investment Corporation (OPIC), and a business consultant urged an OPIC mission to the area.

¶7. A/S Blake's staff has cleared this cable.

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